4/25/84 B4750-1

# Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday (Noon) Apr. 20, 1984

For the last two weeks the market has embraced the slogan "no news is good news." Prices on long- and short-dated financial instruments have declined on any economic news, whether or not it was "good for the market." News of slower retail sales in March; lower rates of growth for M1, M2, and M3 in March; a one-week drop of $5.0 billion for M1; and the sharpest one-month decline in housing starts ever recorded did not encourage the bond market: In fact, prices generally moved lower. On Thursday the release of first-quarter GNP finally gave the bond market bad news, and prices dropped even further. Ironically the sharp 8.3% rate of real growth posted by the economy in the first quarter of 1984 probably sets the stage for better market performance and lower interest rates ahead.

The rationale for this optimistic statement involves the composition of GNP growth in the first quarter and its likely effect on second-quarter growth. Those forecasting an economic slowdown in the second quarter are going to get help from an inventory cycle. First-quarter GNP growth was so strong largely because of an inventory buildup. The increase in inventories--the largest quarterly increase ever --by itself added 4.6 percentage points to the GNP growth rate. Therefore, if all other components of GNP grew in the second quarter just as they did in the first, and inventory accumulation remained at its record high rate, GNP growth would be reduced to about 3½% in the second quarter.

Of course other things also change in the economy. But the inventory cycle is something to depend on. Inventory accumulation can't possibly replicate its recent acceleration in the second quarter; it could rise just a little more, hold steady, or, more likely, decline. As for the other components of GNP, there is some tentative evidence of weakening in consumer demand. The increase in inventories makes more likely a cutback in production unless consumer demand picks up sharply. It therefore seems unlikely that the consumer sector or industrial sector will surge enough to forestall a decline of GNP's growth rate to the 3% range.

Of all the news released recently, only credit growth suggests a problem. Short-term credit has been growing rapidly, at a 27% annual rate during March. However, much of this is to finance inventory investment. If the growth of investment in inventory slows, so will the growth of credit. While the Fed targets a credit measure, it also realizes that this measure can't be controlled at all points in time. I think the Fed will be wary of the strong growth in credit but will temper its reaction depending on the growth in money and the real economy. As growth in money and in the economy slows, the Fed will have room to take pressure off of short-term interest rates.

Robert A. Brusca

# Irving Trust

# Market Yields

| | 4/19/84 (Closed) | Week Ago (Fri.) | Year Ago (Fri.) |
|---|---|---|---|
| **Prime Lending Rate at Irving Trust Company** | 12.00% | 12.00% | 10.50% |
| Effective since | 4/5/84 | | |
| **Discount Rate at Federal Reserve Bank** | 9.00 | 9.00 | 8.50 |
| **Federal Funds** | 10.63 | 10.19 | 8.50 |
| **Repurchase Agreements** | 10.32 | 10.10 | 8.50 |
| **U.S. Treasury Issues** | | | |
| **Bills** | | | |
| 3 months | 10.08 | 10.06 | 8.44 |
| 6 months | 10.48 | 10.41 | 8.74 |
| 1 year | 10.95 | 10.74 | 8.98 |
| **Coupons** | | | |
| 2 years | 11.71 | 11.47 | 9.60 |
| 4 years | 12.28 | 12.00 | 9.97 |
| 7 years | 12.65 | 12.34 | 10.35 |
| 10 years | 12.73 | 12.41 | 10.44 |
| **Long Bond** | 12.77 | 12.45 | 10.54 |
| **Negotiable Certificates of Deposit-Secondary Market** | | | |
| 1 month | 10.38 | 10.15 | 8.50 |
| 3 months | 10.55 | 10.30 | 8.55 |
| 6 months | 10.87 | 10.60 | 8.75 |
| 1 year | N.A. | 11.15 | 9.15 |
| **Banker's Acceptances** | | | |
| 1 month | 10.56 | 10.33 | 8.50 |
| 3 months | 10.79 | 10.56 | 8.55 |
| 6 months | 11.15 | 10.87 | 8.75 |
| **Eurodollar Deposits** | | | |
| 1 month | 10.87 | 10.63 | 9.06 |
| 2 months | 10.93 | 10.69 | 9.13 |
| 3 months | 11.06 | 10.88 | 9.19 |
| **Commercial Paper - Prime Names** | | | |
| **Directly placed by:** | | | |
| **Finance Companies** | | | |
| 1 week | 10.16 | 10.21 | 8.63 |
| 1 month | 10.59 | 10.28 | 8.68 |
| 3 months | 10.67 | 10.40 | 8.81 |
| **Bank Holding Companies** | | | |
| 1 month | 9.84 | 9.71 | 8.30 |
| **Dealer Placed:** | | | |
| 3 months | 10.72 | 10.56 | 8.54 |
| **New AA Corporate Utility Bond** | 13.80 | 13.50 | 11.65 |
| **Tax Exempt** | | | |
| 6 month Project Notes | 5.65 | 5.55 | 5.20 |
| 1 year AAA Bond | 5.75 | 5.75 | 5.25 |
| 5 year AAA Bond | 7.40 | 7.40 | 6.40 |
| 20 year AAA Bond | 9.40 | 9.40 | 8.60 |

This information represents prevailing market yields.
**It should not be construed as an offering.**
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629